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LONG ABSTRACT

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[SMALL BUSINESSES AND INNOVATION]

Ongoing work

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As we move into the 1980's, attention is being focused on a number of issues which are central to our nation's continued viability. One such issue is innovation, and a growing concern that the rate of innovation is declining. This perceived decline is of concern because of the belief that there is a strong relationship between innovation and economic and social well-being. Innovation is seen as vital to our nation's strength, and the alleged erosion of innovation is seen as undermining our security, our continued viability, and the quality of our lives.

Small businesses are a particular focus of attention in light of this concern because they are believed to be a major source of the innovation which enhances the health of the U.S. economy.

This ongoing work was initiated to synthesize the available literature and other information on the roles of small businesses in innovation, the contributions they make, and the conditions which affect their ability to perform those roles. The data collection for this project included a comprehensive review of several bodies of literature (e.g., economics, innovation, entrepreneurship, and policy research), interviews with 100 small business people and executive agency personnel who

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are involved in different aspects of innovation by small businesses, and review of specific proposals which have been made to support the role of small businesses in innovation.

From the literature and information we reviewed, we derived four categories which describe the roles small businesses are likely to play within five different categories of industry structure. We also identified a number of factors which appear to be significant influences on the likelihood that small businesses will play an active role in innovation. The categories of industry structure and small business roles provide a vehicle for analyzing the relationships between the structure of an industry and the roles small businesses are most likely to play in that industry. The factors provide a foundation for determining under what conditions small businesses are most likely to play a role in innovation.

We believe that this synthesis and analysis will be particularly useful to decisionmakers in this period when enhancing the roles of small businesses in innovation is seen as a significant part of the solution to the perceived decline in innovation in this country.

The scope of this work is limited to an examination of small businesses as one source of innovation. We did not examine the role of university or government laboratories, medium or large businesses, or other institutions engaged in innovative activities. We did not assess the question of how important,

in quantifiable terms, small businesses are in the innovation process. It is clear that small businesses have been one important source of innovation in the past.

While the scope of this work is limited to small businesses, we include all of those factors which are found to be important influences on the activities of any potential innovator. In that regard, the inquiry includes the broadest social and economic influences, and the more specific industry and individual firm factors.

This work will address two main questions:

--What roles are most likely to be played by small businesses in innovation in different industries, and what contributions can they be expected to make?

--What conditions influence the likelihood that small businesses will play an active role in innovation?